GAS COST RECOVERY

All **Gas Costs** will be collected through the **Gas Charge**. The Gas Charge will be re-calculated monthly as an average cost per MMBtu based on forecasted costs and volumes for the next 12 months, beginning two months forward; and to correct for any under- or over-collection of costs in the previous month.

Gas Costs

Gas Costs to be recovered through the Gas Charge are costs related to the purchasing, storing, production, and transporting of gas to serve sales customers. **Gas Costs** include:

1. Firm commodity costs
2. Interruptible commodity costs (including spot purchases)
3. Storage withdrawals, including variable injection and withdrawal costs
4. Peaking commodity costs
5. Off-system commodity costs
6. Propane air commodity (propane only) costs
7. TCPL or other pipeline demand tolls
8. Nova demand tolls
9. Storage-related demand charges
10. Peaking demand charges
11. Hedging positions: natural gas, oil, and foreign exchange
12. Hedging instrument premiums
13. System losses

Monthly Filing

Each month, by the 25th of the month, VGS will make a filing which includes:

1. Forecasted Gas Costs to serve firm customers for the next 12 months beginning two months forward; Forecasted Gas Costs will be calculated based on fixed-price contracts and market forecasts for indexed supplies, net of projected interruptible and off-system sales margin.

2. Forecasted firm Gas Sales Volumes for the next 12 months beginning two months forward, based on projected numbers of customers and normal weather;

3. Actual Gas Costs for the previous month, net of interruptible and off-system revenue;

4. Actual Firm Gas Sales Volumes for the previous month;

5. Actual Firm Gas Sales Revenues for the previous month;

6. Proposed new Gas Charge. The proposed new Gas Charge will be calculated to recover Forecasted Gas Costs and to discharge any Adjustment required by over- or under-collection of Gas Costs from the previous month.

Calculation of Gas Charge

GAS CHARGE = (12-MONTH COST FORECAST ± ADJUSTMENT)/12-MONTH VOLUME FORECAST

Where:

Gas Charge	=	Price per MMBtu for gas sold to firm customers.
12-Month Cost Forecast	=	Forecast of Gas Costs identified above.
Adjustment	=	Difference between previous month's Actual Gas Costs (net of interruptible and off-system revenue) and Actual Firm Gas Revenues
12-Month Volume Forecast	=	Forecast of firm Gas Sales Volumes for next 12 months, based on projected numbers of customers and normal weather.

Hedging Costs

Prior to the commencement of the Gas Charge, VGS will present its proposed hedging policy to the Board. As part of each monthly Gas Charge filing, VGS will include a demonstration that the hedging costs reflected in the filing were incurred consistent with VGS's hedging policy.